

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 CAB-02 CIAE-00 COME-00 DODE-00

 DOTE-00 INR-07 NSAE-00 CIEP-01 FAA-00 L-03 H-02 STR-04

 OMB-01 TRSE-00 /034 W
 075234

P R 101800Z AUG 76

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 7264

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

LIMITED OFFICIAL USE SECTION 1 OF 2 BRASILIA 7009

E.O. 11652: N/A

TAGS: EAIR, BR

SUBJ: AVIATION: BRAZILIAN TRADE POLICY AND OUTLOOK

REF: (A) STATE 174173; (B) 75 RIO DE JANEIRO A-36

SUMMARY. EMBASSY AND CONGEN HAVE BEEN UNABLE SO FAR TO DEVELOP
AUTHORITATIVE BRAZILIAN IMPORT DATA FOR 1975 AND 1976 WHICH
WILL NOT BE RELEASED UNTIL OCTOBER. USDOC DATA INDICATES US EX-
PORTS OF LIGHT AIRCRAFT TO BRAZIL OF DOLS 19.5 MILLION IN 1975
AND DOLS 3.9 MILLION IN THE FIRST QUARTER OF 1976. MAJORITY-
GOVERNMENT-OWNERSHIP FIRM, EMBRAER, THE PIPER-LICENSE, CURRENTLY
PRODUCES NINE MODES OF AIRCRAFT (SIX IN CONJUNCTION WITH U.S.
FIRM) AND IS CONSOLIDATING POSITION. WE ESTIMATE MARKET FOR
GENERAL AVIATION AIRCRAFT WILL CONTINUE TO GROW BUT NOT AS RAPIDLY
AS RECENT DATA WOULD SUGGEST. CESSNA ATTEMPTED TO ENTER MARKET
WITH ASSEMBLY OPERATION IN SOUTH OF BRAZIL THROUGH AFFILIATED FIRM
CUVA SA BUT WAS TURNED DOWN. ADVERSE PUBLICITY SURROUNDED THIS
APPROACH BY CESSNA. LONG TERM PROSPECTS ARE FOR "BRAZILIANIZATION"
OF INDUSTRY AS BRAZIL ATTEMPTS TO ASSERT LEADERSHIP IN LATIN
AMERICAN AVIATION MANUFACTURE. AS NOTED IN PREVIOUS REPORTING,
COMPOSITION OF U.S. EXPORTS TO BRAZIL WILL INCREASINGLY CHANGE
FROM AIRCRAFT TO COMPONENTS IN NEXT FEW YEARS. END SUMMARY.

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1. GOB IMPORTS FIGURES FOR 1975 ARE DUE TO BE PUBLISHED ONLY IN OCTOBER 1976. THUS OUR ONLY SOURCE FOR TRENDS IN THIS MARKET ARE USDOC PUBLISHED STATISTICS: (WE DO NOT KNOW WHETHER UNDER US STATISTICAL METHODOLOGY ONLY FULLY ASSEMBLED AIRCRAFT ARE INCLUDED IN THESE SCHEDULE NUMBERS):

SCHED. B US EXPORT			
	NUMBER	TO BRAZIL	VALUE
JAN-DEC, 1975			
SINGLE ENGINE, SMALL			
AIRCRAFT	7341010	278	DOLS 7,674,358
MULTI ENGINE, SMALL			
AIRCRAFT	7341015	65	5,189,936
MULTI ENGINE, OVER			
3000 LB.	7341020	25	6,674,963
JAN-MAR, 1976			
SINGLE ENGINE, SMALL			
AIRCRAFT	7341010	70	1,683,913
MULTI ENGINE, SMALL			
AIRCRAFT	7341015	26	2,172,945
MULTI ENGINE, OVER			
3000 LB.	7341020	1	113,601

GOB 1973 AND 1974 STATISTICS WERE TRANSMITTED VIA RIO A-33 (PAGE 3 OF ENCLOSURE NO. 3) WHICH INDICATES U.S. MARKET SHARE OF OVER THREE-QUARTERS OF TOTAL IMPORTS, A SITUATION WE BELIEVE TO CONTINUE UNCHANGED. IMPORT SUBSTITUTION IS CENTRAL POLICY CONSIDERATION OF GOB IN AVIATION EQUIPMENT SECTOR, AS IT IS FOR MOST OTHER INDUSTRIAL PRODUCTS. THUS, BRAZILIAN LEGISLATION PROVIDES FOR EXTREMELY HIGH TARIFFS (UP TO 205 PERCENT) ON IMPORT OF PRODUCTS MANUFACTURED IN BRAZIL. IN ADDITION, RECENT LEGISLATION HAS CREATED FURTHER IMPORT BARRIERS IN AN EFFORT TO COUNTERACT A DIFFICULT BALANCE OF PAYMENTS POSITION.

2. GIVEN THIS SITUATION, MANUFACTURE OF SMALL AIRCRAFT IN BRAZIL BY EMBRAER, A MAJORITY-GOB-OWNED PIPER LICENSEE (SEE 75 RIO DE JANEIRO A-36,) HAS MEANT THAT THE IMPORT OF LIGHT AIRCRAFT WOULD BE RESTRICTED. ANY IMPORTED AIRCRAFT "SIMILAR" (IN THE LIMITED OFFICIAL USE

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JUDGMENT OF BANK OF BRAZIL OFFICIALS) TO ONE BEING BUILT BY EMBRAER WILL BE CHARGED HIGH TARIFF UNLESS IT WILL BE USED BY COMMON CARRIER OR THE MILITARY. HOWEVER MOST COMMON CARRIERS IN BRAZIL ARE STRONGLY, IF INFORMALLY, URGED BY REGULATORY CIVIL AUTHORITIES TO "BUY BRAZILIAN" WHICH IN MOST CASES MEANS UNPRESSURIZED BANDEIRANTES (SEE LIST BELOW). EFFECTIVELY, FOR US FIRMS, THE BRAZILIAN MARKET IS LIMITED TO CLASSES OF AIRCRAFT NOT MADE IN BRAZIL. BELOW IS A LIST OF BRAZILIAN-MADE AIRCRAFT.

LIST OF AIRCRAFT MADE IN BRAZIL:

AIRCRAFT	PURPOSES WEIGHT (LBS)	(MAX TAKEOFF)	SEATS	ENGINES
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IPANEMA	AGRICULTURAL	3,500	1	SINGLE
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XAVANTE	JET TRAINER	11,500	2	SINGLE
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BANDEIRANTE	GEN. TRANSPORT	12,000	12-18	TWIN
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CARIOCA				
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(PATHFINDER)	GEN. AVIATION	3,000	4	SINGLE
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NAVAJO				
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(CHIEFTAIN)	GEN. AVIATION	7,000	10	TWIN
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MINUANO				
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(CHEROKEE				
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SIX)	GEN. AVIATION	3,100	6	SINGLE
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SENECA II	GEN. AVIATION	4,570	6-7	TWIN
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CORISCO				
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(ARROW)	GEN. AVIATION	2,650	4	SINGLE
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SERTANEJO				
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(CHEROKEE				
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LANCE)	GEN. AVIATION	3,400	6-7	SINGLE
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PIPER NAME IS IN PARENTHESIS AFTER EMBRAER NAME WHERE DIFFERENT.				
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3. EMBRAER IS NOW IN THE PROCESS OF CONSOLIDATING ITS ACTIVITIES. NEXT STAGE OF PRODUCTION WILL BE THE NEW PRESSURIZED BANDEIRANTE WITH GREATER PASSENGER CAPACITY (UP TO 22 PERSONS). NO OTHER NEW AIRCRAFT PROJECTS SEEM LIKELY AT PRESENT TIME. THUS US MANUFACTURERS CAN EXPECT SITUATION TO CONTINUE LARGELY UNCHANGED FROM RECENT MONTHS.

4. BRAZILIAN MARKET FOR SMALL AIRCRAFT IS CURRENTLY GROWING BUT NOT AT PACE THAT MIGHT HAVE BEEN PROJECTED BY STRAIGHT LINE PROJECTIONS OF 1973-74 DATA. AS ONE INDICATION, EMBRAER AND ITS DEALER NETWORK HAVE UNSOLD AIRPLANES DESPITE INTENSIVE MARKETING CAMPAIGN. EMBRAER IS CONCERNED ABOUT ITS STOCK OF UNSOLD PLANES, ACCORDING TO UNOFFICIAL SOURCES. WE BELIEVE REASONS FOR SALES

SLOW-DOWN INCLUDE EXCEPTIONALLY HIGH IMPORT FIGURES FOR 1973-74
DUE TO IMPORTERS' ATTEMPT TO GET PLANES IN COUNTRY BEFORE RAISING
OF TARIFF WALLS, FUEL PRICE RISE SUBSEQUENT TO 1974 AND SLOWDOWN
IN BRAZILIAN ECONOMIC GROWTH IN GENERAL.

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 CAB-02 CIAE-00 COME-00 DODE-00

DOT-00 INR-07 NSAE-00 CIEP-01 FAA-00 L-03 H-02 STR-04

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INFO AMCONSUL RIO DE JANEIRO

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5. MODELS 4-9 IN LIST IN PARA 2 ARE ALL ASSEMBLED IN BRAZIL OF
US SUB-ASSEMBLIES. ON TOUR OF EMBRAER FACTORY CONGEN RIO OFFICER
SAW CRATES WITH VIRTUALLY ASSEMBLED FUSELAGES NEXT TO CRATES
WITH ASSEMBLED WINGS WAITING FOR FINAL ASSEMBLY. THUS, ALTHOUGH
THEY BEAR A "MADE IN BRAZIL" LABEL, THEY ARE IN FACT AIRPLANES
NEARLY ASSEMBLED, SHIPPED BY PIPER AIRCRAFT CORPORATION (SEE
PARA 6 BELOW) TO EMBRAER.

6. FROM 1972 THRU 1974 WHEN EMBRAER WAS OPENLY NEGOTIATING WITH
FOREIGN FIRMS FOR LICENSING AND ASSEMBLY OPERATIONS, PIPER
AMONG OTHERS HELD DISCUSSIONS WITH EMBRAER. AVIATION CIRCLES
IN BRAZIL BELIEVE THAT THE TERMS WHICH PIPER FINALLY ACCEPTED
HAD BEEN UNACCEPTABLE TO CESSNA, WHICH AT THAT TIME HAD 2/3
OF BRAZILIAN LIGHT AIRCRAFT MARKET. WHEN PIPER SIGNED A LICENSING
AND SUPPLY AGREEMENT WITH EMBRAER IT BECAME CLEAR THAT BRAZILIAN
MARKET WOULD BE DOMINATED BY PIPER AND PIPER-DESIGNED PLANES
FOR NEAR TERM AT LEAST, SINCE LEGISLATION (INCLUDING LAW OF
SIMILARS) WAS ALREADY IN EFFECT AND APPLIED IN SEVERAL OTHER
FIELDS (REFAIR GIVES MORE DETAIL).

M CESSNA'S PRESIDENT, RUSSELL MEYERS, WAS REPORTED IN AVIATION WEEK MAGAZINE AS HAVING MADE A COMMENT DURING A US SPEECH TO THE EFFECT THAT IF BRAZIL DOES NOT BUY US PLANES, US SHOULD NOT LIMITED OFFICIAL USE

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BUY BRAZILIAN COFFEE. THIS STATEMENT APPARENTLY WAS MADE AFTER GOB REFUSED A CESSNA AFFILIATE IN BRAZIL (CAVU SA OF SAO PAULO) PERMISSION TO CONSTRUCT IN RIO GRANDE DO SUL A SMALL AIRCRAFT ASSEMBLY PLANT TO COMPETE WITH THE GOVERNMENT'S FIRM, EMBRAER. THIS COMMENT APPEARED IN LEADING DAILY NEWSPAPERS IN BRAZIL AND WAS INDIGNANTLY REFERRED TO BY BRAZILIAN CIVAIR AUTHORITIES IN CASUAL CONVERSATION WITH CONGEN OFFICER. ALSO, DURING CESSNA'S ATTEMPT TO GET ASSEMBLY OPERATIONS STARTED IN BRAZIL CAVU SA MADE A STATEMENT TO THE PRESS PROMISING THAT EMBRAER WOULD FIND EXPORT DIFFICULT WERE CESSNA ASSEMBLY OPERATIONS TO BE DENIED. EMBRAER RETORTED THAT NO FOREIGN MANUFACTURER HAD THE RIGHT TO THREATEN BRAZIL. THESE STATEMENTS MAY HAVE DONE SEVERE DAMAGE TO WHATEVER WAS LEFT OF CESSNA'S CHANCES TO ASSEMBLE OR MARKET IN BRAZIL IN THE NEAR TO MEDIUM TERM.

8. MOONEY AIRCRAFT IS REPORTED TO BE PLANNING AN INVESTMENT PROJECT IN BRAZIL FOR SMALL AND EXECUTIVE AIRCRAFT AND IS KNOWN TO HAVE MADE INQUIRIES IN THE BELO HORIZONTE AREA. WE DO NOT KNOW IF MOONEY OR AIR MINISTRY HAS MADE A FINAL DECISION. MOONEY AIRCRAFT'S COMMENTS ON BRAZIL MAY BE OF INTEREST TO THE DEPARTMENT.

9. MEDIUM AND LONG TERM PROSPECTS ARE FOR INCREASING "BRAZILIANIZATION" OF AVIATION INDUSTRY WITH OR WITHOUT US PARTICIPATION. FRENCH, GERMAN AND BRITISH FIRMS ARE KNOWN TO BE EXPLORING THE MARKET HERE. MANUFACTURE OR ASSEMBLY OF FRENCH HELICOPTERS (PRINCIPALLY PUMAS) IN BRAZIL HAS BEEN CONSIDERED IN THE LAST YEAR. THIS TREND NEED NOT IMPLY DECLINING US AVIATION EQUIPMENT EXPORTS TO BRAZIL. AS AN EXAMPLE, 70-80 PERCENT (BY VALUE) OF COMPONENTS OF BRAZILIAN-DESIGNED BANDEIRANTE ARE IMPORTED. (ENGINES ARE PRATT AND WHITNEY OF CANADA (PT-6S AND VIRTUALLY ALL OTHER PARTS ARE OF US MANUFACTURE.) THIS PERCENTAGE WILL DECLINE SLOWLY OVER THE NEXT SEVERAL YEARS. TO CONTINUE MARKETING AVIATION PRODUCTS HERE, SEVERAL US FIRMS INCLUDING GENERAL AVIATION MANUFACTURERS ASSOCIATION MEMBERS HAVE ALREADY BEGUN ARRANGEMENTS FOR LOCAL MANUFACTURE OR ASSEMBLY.

10. AGREEMENTS BETWEEN PIPER AND EMBRAER ONLY COVER CURRENT PRODUCTION AIRCRAFT USING STANDARD TECHNOLOGY. NEW-TECHNOLOGY MODELS WHICH PIPER PLANS TO INTRODUCE ARE NOT COVERED. THESE NEW MODELS COULD BE SOLD IN BRAZIL IF BRAZILIAN AUTHORITIES CAN BE CONVINCED THAT THEY ARE NOT DIRECTLY COMPETITIVE WITH LIMITED OFFICIAL USE

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EMBRAER AND REPRESENT A NEW GENERATION IN SMALL-PLANE DESIGN. LONG-TERM TARIFF SITUATION OF SMALL JETS IS UNCERTAIN BUT IT IS LIKELY THAT IMPORTS WILL CONTINUE IN FUTURE GIVEN HOPED-FOR IMPROVEMENT IN BRAZIL'S BALANCE OF PAYMENTS SITUATION.

11. BRAZIL IS ATTEMPTING TO BECOME THE LEADING PCGDUCER OF AVIATION PRODUCTS IN LWTIN AMERICA. EMBRAER HAS EXPORTED PLANES TO URUGUAY (IPANEMAS AND BANDEIRANTES ON RELATIVELY LONG TERM CREDIT), CHILE (PART OF A COPPER BARTER DEAL), AND HAS HELD DISCUSSIONS WITH TWO US PURCHASERS. ONE POTENTIAL US PURCHASER WOULD REPLACE FRENCH-MADE FALCONS WITH BRAZILIAN BANDEIRANTES. THUS NOT AFFECTING NET US FOREIGN TRADE IN AVIATION EQUIPMENT EXCEPT INsofar AS BANDEIRANTE USES MORE US COMPONENTS THAN THE FALCON (SEE PARA 9). APPARENTLY NO FINAL DECISION HAS BEEN MADE ON LAFTA PREFERENCES IN AVIATION EQUIPMENT FOR BRAZIL, BUT A REQUEST OF THIS NATURE MIGHT RUN HEAD ON INTO VENEZUELAN, COLOMBIAN AND MEXICAN PLANS FOR AIRCRAFT PRODUCTION.

12. GENERAL AVIATION EQUIPMENT OUTLOOK FOR BRAZIL IS FOR IN-CREASING IMPORT OF COMPONENTS, TECHNOLOGY, USE OF LICENSING AGREEMENTS, AND JOINT VENTURES. WE CAN EXPECT THAT, AS EMBRAER CONSOLIDATES ITS POSITION IN THE MEDIUM TERM, IT WILL MOVE INTO MANUFACTURE OF HELICOPTERS, LARGER GENERAL AVIATION AIRCRAFT, AND COMPONENTS FOR OTHER PLANES. IT IS ALREADY A PRODUCER OF COMPONENTS FOR NORTHROP F-5. IN THE LONG TERM EMBRAER WILL BE LOOKING TOWARD PRODUCTION OF MILITARY AIRCRAFT MORE ADVANCED THAN THE XAVANTE TRAINER (CURRENTLY PRODUCED UNDER LICENSE FROM AERONAUTICA MACCHI OF ITALY) AND LARGER CIVIL AVIATION AIRCRAFT (IN THE 40-60 PASSENGER TURBOPROP RANGE).

13. COMMENT: THE LARGEST SHARE OF THE BRAZILIAN AIRFRAME MARKET FOR GENERAL AVIATION MANUFACTURE FOR THE MEDIUM TERM IS NOW VIRTUALLY GUARANTEED TO PIPER OWING TO ITS AGREEMENT WITH EMBRAER. OTHER MANUFACTURERS (US AND FOREIGN) MAY TRY TO BREAK THIS BUT IT WILL BE DIFFICULT. NO NEW INVESTMENT IN AVIATION SECTOR WILL BE MADE WITHOUT EXPLICIT APPROVAL OF AIR MINISTRY. APPROVALS WILL ONLY BE GIVEN AFTER EXTENSIVE CONSULTATIONS WITHIN AIR MINISTRY AMONG AIR-WORTHINESS AUTHORITIES, DEPT. OF CIVIL AVIATION, DEPT. OF ELECTRONIC AND FLIGHT PROTECTION AND ALSO EMBRAER.

14. A FULL REPORT ON CURRENT STATUS OF BRAZILIAN AVIATION LIMITED OFFICIAL USE

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MANUFACTURING INDUSTRY IS IN PREPARATION. CRIMMINS.

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Message Attributes

Automatic Decaptioning: X
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Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COMMERCIAL AIRCRAFT, POLICIES, TRADE DATA, IMPORT DATA
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Copy: SINGLE
Draft Date: 10 AUG 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Document Unique ID: 00
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From: BRASILIA
Handling Restrictions: n/a
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Office: ACTION EB
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04 MAY 2006

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